

**Meeting Date:** 6/2/2015

**Report Type:** Consent

**Report ID:** 2015-00534

**Title:** Third Quarter Financial Report - Fiscal Year 2014/15

**Location:** Citywide

**Recommendation:** Receive and file.

**Contact:** Leyne Milstein, Finance Director, (916) 808-8491; Dawn Holm, Budget Manager (916) 808-5574, Department of Finance

**Presenter:** None

**Department:** Finance

**Division:** Budget Office

**Dept ID:** 06001411

**Attachments:**

1-Description/Analysis

2-Third Quarter Financial Report

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**City Attorney Review**

Approved as to Form

Steve Itagaki

5/28/2015 8:58:16 AM

**Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 5/27/2015 5:59:00 PM

## Description/Analysis

**Issue Detail:** The purpose of the quarterly report is to provide the City Council with timely information regarding the City's current financial condition. The attached report (Attachment 1) provides an update on the City's major revenues and department expenditures through the third quarter of FY2014/15.

It is recommended that the City Council receive this report as informational only.

**Policy Considerations:** The quarterly financial reporting to the City Council is intended to provide an overview of the City's financial status consistent with Section 61 of the City Charter.

**Economic Impacts:** Not applicable.

**Environmental Considerations:** Not applicable.

**Sustainability:** Not applicable.

**Commission/Committee Action:** None.

**Rationale for Recommendation:** The City Manager is responsible for reporting in accordance with the authority granted by Section 61 of the City Charter.

**Financial Considerations:** The quarterly report reflects the City's continuing need to actively manage expenditures. Staff will continue to work for the remainder of the fiscal year with department staff toward achieving budgetary goals.

**Local Business Enterprise (LBE):** No goods or services are being purchased under this report.

**OVERVIEW**

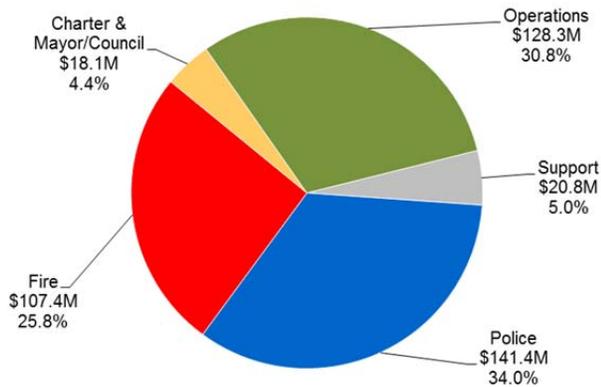
The FY2014/15 Approved Budget includes:

- \$873 million and 4,156.87 authorized full-time equivalent (FTE) positions (all funding sources)
- \$383 million and 2,942.07 FTE in the General Fund
- \$29.9 million and 324.95 FTE in Measure U restorations, which is the sales and use tax approved by the Voters of Sacramento in November 2012.

**GENERAL FUND**

The following graph represents the City's gross General Fund expenditure budget based on major departmental groupings.

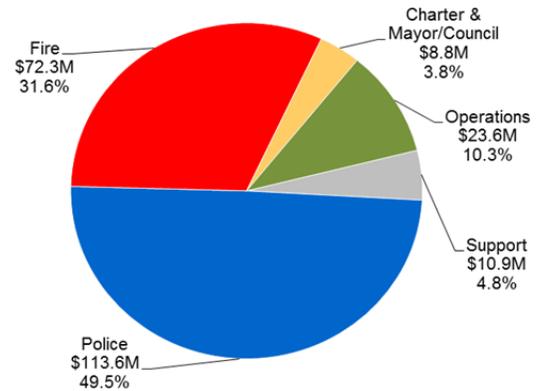
**FY2014/15 Gross General Fund Expenditures \$416 Million**



- The Gross General Fund expenditure budget does not include revenues or reimbursements.
- Charter includes: City Attorney, City Clerk, City Manager, and City Treasurer.
- Operations includes: Community Development; Convention and Cultural Services; Economic Development; General Services; Parks & Recreation; and Public Works.
- Support includes: Finance, Human Resources, and Information Technology.
- Citywide Debt, Property Taxes, Insurance and Capital appropriations are not included in the graph above.

The following graph represents the City's net General Fund expenditure budget based on major departmental groupings.

**FY2014/15 Net General Fund Expenditures \$229.2 Million**



- The Net General Fund expenditure budget reflects operating department budgets less reimbursements and revenues.
- Citywide Debt, Property Taxes, Insurance and Capital appropriations are not included in the graph above.

**General Fund Financial Condition.** Based on a review of the major revenue assumptions included in the FY2014/15 Approved Budget, staff has determined that no adjustments to the General Fund's major tax revenues are necessary at this time.

**GENERAL FUND (\$ in '000s)**

	Budget	YTD	
		Actuals	Percent
Balance, Beginning of FY15	-	-	
Revenues	385,213	245,255	64%
Expenditures	383,437	302,328	79%
<b>Total:</b>	<b>1,776</b>	<b>(57,073)</b>	

*This chart reflects budget and actual expenditures for all activities in the General Fund (department operations, capital projects, debt service, etc.).*

**Department Projections.** Departments highlighted below are projecting a deficit at the fiscal year-end and further explanation is provided after the following charts.

**GENERAL FUND DEPARTMENT REVENUES**

Department	FY2014/15		Projected Year-End Variance
	Budget	YTD Actuals	
City Attorney	52,000	127,906	112,109
City Clerk	52,000	80,771	-
City Treasurer	2,964,621	2,118,470	-
Community Development	16,119,555	14,996,354	(97,337)
Convention and Cultural Services	783,409	604,439	-
Economic Development	607,251	882,586	318,972
Finance	1,733,551	807,892	-
Fire	23,815,271	17,315,404	-
General Services	831,000	839,625	-
Human Resources	152,000	130,820	-
Parks and Recreation	1,375,843	1,165,127	200,000
Police	11,241,880	7,246,770	-
Public Works	15,663,335	12,260,575	373,665
<b>Total General Fund:</b>	<b>75,391,716</b>	<b>58,576,739</b>	<b>907,409</b>

<sup>1</sup> Department projected revenue shortfalls will be offset by expenditure savings.

**GENERAL FUND DEPARTMENT EXPENDITURES**

Department	FY2014/15		Projected Year-End Variance
	Budget	YTD Actuals	
Mayor/Council	3,461,543	2,399,550	-
City Attorney	3,975,565	2,884,190	65,019
City Clerk	1,205,051	826,717	-
City Manager	1,824,782	959,447	286,304
City Treasurer	1,909,683	1,305,808	65,878
Community Development	20,782,276	13,627,177	1,214,480 <sup>2</sup>
Convention and Cultural Services	4,537,812	3,265,587	-
Economic Development	2,490,827	1,777,255	164,382
Finance	4,921,429	3,546,940	47,593
Fire	98,100,758	73,211,110	-
General Services	8,785,548	6,935,944	-
Human Resources	2,858,813	1,975,450	-
Information Technology	5,378,213	4,495,709	361,572
Parks and Recreation	15,012,333	15,381,873	-
Police	121,144,834	96,883,749	(3,076,795)
Public Works	5,733,554	15,327,222	(90,034) <sup>3</sup>
<b>Total General Fund:</b>	<b>302,123,021</b>	<b>244,803,728</b>	<b>(961,601)</b>

<sup>2</sup> Department expenditure savings will be used to offset projected revenue shortfall.

<sup>3</sup> Department expenditure shortfalls will be offset by additional revenues.

**Police Department**

The Police Department forecasts a year-end budget deficit of approximately \$3 million. \$2.1 million will correct retiree benefit payments (one-time payments) and payroll reporting and payment corrections to the California Public Employees' Retirement System for FY2014/15. The remainder is the result of increased department overtime expenditures.

**Revenues.** The City's top six revenue sources account for 71% of total General Fund revenues. By focusing on these revenue sources, we can see the trend of revenues for the fiscal year. However, many revenues are not received on a monthly basis; therefore, it is difficult to evaluate actuals to date as a percent of budget. In these cases, it is important to utilize any available information on each revenue source to evaluate the potential variance. Additional information for the analysis of a particular revenue source is provided in the descriptions below.

**TOP GENERAL FUND REVENUES (in '000s)**

Revenue Type	Budget	YTD Actuals
Property Tax	130,509	73,742
Sales and Use Tax	67,918	44,444
Utility User Tax <sup>4</sup>	58,982	41,762
Business Operations Tax <sup>4</sup>	8,827	7,905
Public Safety Sales Tax	4,586	3,008
Transient Occupancy Tax <sup>4</sup>	3,386	2,229
<b>Total:</b>	<b>274,208</b>	<b>173,090</b>

<sup>4</sup> After the end of each month, businesses have 30 days to remit UUT, BOT, and TOT revenue to the City. After the 30-day remittance period, the City processes/reconciles the transactions over the following 10 days. The monthly reporting data is available by the 15<sup>th</sup> of the following month (45 days after the reporting period ends).

**City's Major Revenue Sources**

**Property Tax.** Property taxes are the largest General Fund revenue source, accounting for approximately 34% of all General Fund revenues. Revenues related to property taxes are affected by fluctuations in the real estate market, levels of new construction activity, and the corresponding changes to the tax roll. The majority of current secured property tax revenues are received in mid-December and mid-April, while the balance of current secured, current unsecured, supplemental, and miscellaneous property tax revenues are received in late January and late May.

The first apportionment of the City's FY2014/15 property taxes was received in December 2014. The first secured roll payment was approximately 5.8% higher than the same payment received in FY2013/14. As anticipated in the FY2014/15 Approved Budget, this increase is the result of fewer temporary reductions to the Proposition 13 tax roll values. Based on an increase in transfer tax activity and overall value during the first half of the fiscal year, property taxes appear to be on a path to exceed budget estimates.

**Sales and Use Tax.** Sales and Use Taxes make up approximately 18% of General Fund revenue. Sales tax is imposed on all retailers for the privilege of selling tangible personal property in the state, whereas the use tax is imposed on the purchase for storage, use, or other consumption of tangible personal property purchased from any retailer. The City receives monthly apportioned payments and a true-up payment for the prior period at the end of each quarter. The second true-up payment for this fiscal year was received in March. The City is currently projecting revenue to be in line with the FY2014/15 budget.

**Utility User Tax (UUT).** UUT at 15% is the City's third largest source of General Fund revenue. Measure O was approved by the voters on November 4, 2008, reducing the 7.5% tax rate to 7.0% on telecommunication services, but was expanded to include Voice over Internet Protocol (VoIP), text messaging and many other previously excluded technologies. The 7.5% tax rate continues to be in effect for gas, electric, and cable services. Revenue collected through February 2015 is up approximately 1.2% when compared to the same period last year.

**Other City Revenue Sources**

**Business Operations Tax (BOT).** Business Operations Taxes are remitted annually by individuals and businesses that commence, transact, engage in or carry on any business, trade, profession, calling, occupation, or gainful activity in the city. Business Operations Taxes make up approximately 2% of General Fund revenues. Revenue collected to date is in line with the budget.

**Public Safety Sales Tax.** On November 2, 1993, California voters enacted Proposition 172, which established a permanent statewide half-cent sales tax for support of local public safety functions in cities and counties. This tax represents approximately 1% of General Fund revenue. Revenue collected to date is in line with the budget.

**Transient Occupancy Tax (TOT).** The current rate of 12% is charged to all guests of hotels, motels, inns, and bed and breakfasts within city limits. The General Fund portion of TOT revenues is equal to two percentage points of the 12% rate. The remaining TOT revenues collected are directed to the Community Center Fund. TOT represents approximately 1% of General Fund revenue. Revenue collected through February 2015 is up approximately 11.2% when compared to the same period last year, the result of

higher occupancy and room rates. Based on revenue activity to date, TOT revenue is anticipated to exceed budget estimates for FY2014/15.

**Essential Services Protection Measure - Measure U.** The FY2014/15 Approved Budget estimate for revenues was \$31.8 million. MuniServices, the City's sales tax consultant, completed a thorough review of the Measure U sales tax receipts and based on this review the Midyear Budget approved by Council increased the estimate to \$41.5 million. Revenue collected to date is in line with the budget.

**Economic Indicators.** The following chart reflects key economic indicators utilized in projecting General Fund revenues:

Key Economic Indicators	3/2014	3/2015
City Unemployment Rate (UR)	9.6%	6.4%
County UR	8.1%	6.0%
State UR	8.1%	6.5%
National UR <i>(3/2014 vs. 3/2014)</i>	6.7%	5.5%
CPI <i>(1/2014-3/2014 vs. 1/2015-3/2015)</i>	1.41%	-0.06%
30-Year Fixed Mortgage Rate	4.36%	3.72%

**Revenues to Watch.** The following revenues are subject to state and/or federal legislation and enforcement. Staff will continue to monitor and provide updates to the City Council on these revenues, as well as pending legislation that may affect City revenues.

**Rate Range Intergovernmental Transfer (IGT) Program.** The IGT program allows the City to recover costs associated with providing services to Medi-Cal managed care patients. The Fire Department transferred \$7.6 million to the State Department of Health Care Services for participation in this program on March 13, 2015. It is anticipated that the Department will receive \$12.5 million by the end of FY2014/15, \$7.6 million of which will reimburse the Department for the participation costs. This recovery option will be evaluated to determine if and when it can be included as an ongoing revenue source for the Department. The Department's cost per transport is approximately \$1,400 while the average recovered per transport is approximately \$440. The IGT Program provides the City the opportunity to recover previously unrecoverable costs and will assist in reducing the Advanced Life Support operations reliance on the General Fund.

**Ground Emergency Medical Transportation (GEMT).** The GEMT program allows the City to recover costs associated with Medi-Cal transports. The GEMT Cost Report for FY2013/14 was submitted in November 2014 for an estimated reimbursement claim of \$702,000. These funds have not yet been received.

**Medical Marijuana.** In order to allow for more time for the appeals process, an item was approved by City Council on November 25, 2014, to extend the medical marijuana dispensary permit deadline to May 31, 2015, for dispensaries that have filed a completed conditional use permit application by December 31, 2014.

Of the 31 applications submitted, 30 have obtained their conditional use permits. There are currently 28 of those dispensaries operating and the 4% tax is trending slightly ahead of budget.

## ENTERPRISE FUNDS

All Enterprise Fund revenues and expenditures have been reviewed and are anticipated to come in within budget as reflected below:

### ENTERPRISE FUND REVENUES

Fund Name	FY2014/15		Projected
	Budget	YTD Actuals	Year-End Variance
Community Center	25,605,000	18,691,149	1,379,000
Parking	15,345,308	13,247,060	1,375,992
Solid Waste	58,046,000	43,991,898	661,776
Storm Drainage	36,295,187	27,123,926	(643,128)
Wastewater	31,570,123	23,965,400	11,041
Water	96,357,721	75,173,674	1,599,584
<b>Total Enterprise Funds:</b>	<b>\$263,219,339</b>	<b>\$202,193,107</b>	<b>\$4,384,265</b>

### ENTERPRISE FUND EXPENDITURES

Fund Name	FY2014/15		Projected
	Budget	YTD Actuals	Year-End Variance
Community Center	24,462,157	18,924,120	142,898
Parking	18,592,792	14,765,332	163,909
Solid Waste	52,023,989	33,274,733	3,476,132 <sup>1</sup>
Storm Drainage	34,528,429	26,737,329	690,569
Wastewater	24,064,833	18,082,865	240,648
Water	83,398,062	59,638,246	2,501,942 <sup>2</sup>
<b>Total Enterprise Funds:</b>	<b>\$237,070,262</b>	<b>\$171,422,625</b>	<b>\$7,216,098</b>

<sup>1</sup> Department expenditure savings are the result of lower than anticipated disposal fees, fuel expenses, bad debt, and labor savings.

<sup>2</sup> Department expenditure savings are the result of lower than anticipated utility and chemical costs, bad debt, fuel expenses, and labor savings.